

## State of California

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### **Legislative Change No.**

**02-01**

Bill Number: AB 131

Author: Corbett

Chapter Number: 02-30

Laws Affecting Franchise Tax Board: 17501.5, 17501.7

Date Filed with the Secretary of the State: April 26, 2002

**SUBJECT:** Conformity to Rollover of Section 457 Plans Provisions of EGTRRA

**Assembly Bill 131 (Corbett), as enacted on May 6, 2002, made the following changes to California law:**

#### **Section 17501.5 of the Revenue and Taxation Code is added.**

Generally, when an employee in the private sector is changing employers they are permitted to roll over their employer sponsored retirement savings plans, including 401(k) plans, into a variety of other retirement savings plans. In contrast, prior to Economic Growth and Tax Relief Act (EGTRRA,) amounts in Section 457 plans could not be rolled over except to another Section 457 plan. EGTRRA permits Section 457 plans to be rolled over the same as 401(k) plans.

EGTRRA also permits a surviving spouse to roll over distributions from a qualified retirement plan to a Section 457 plan in which the surviving spouse participates.

AB 131 conformed to EGTRRA Section 641, thus, allowing Section 457 plans to be rolled over into a non-Section 457 plan. A surviving spouse may also roll over qualified distributions into a Section 457 plan.

#### **Section 17501.7 of the Revenue and Taxation Code is added.**

Prior to EGTRRA, Section 457 plan distributions could not be used on a pre-tax basis to purchase service credit.

EGTRRA permits Section 457 plan distributions to be used to purchase permissive service credit without triggering any immediate tax consequences. The rules that pertain to the rollovers or purchase of permissive service credit for other retirement plans (e.g., Section 401(k), etc.) generally apply for Section 457 plans.

AB 131 conformed to EGTRRA Section 647, thus, allowing Section 457 plan distributions to be used to purchase service credits.

Bureau Director

Brian Putler

Date

August 23, 2002

**AB 131 also enacted an uncodified provision affecting the Education and Government Codes.**

AB 131 allows public employees participating in Section 457 plans who retired after January 1, 2002, and before 120 days after its enactment (August 24, 2002) to change any previous election relating to rollovers and purchase of service credits.

This act is effective January 1, 2002.

This act will not require any reports by the department to the Legislature.